Wisconsin Department of Revenue
Division of Research and Policy
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PROPERTY TAX

A. INTRODUCTION

The property tax is the most important tax revenue source for local governments. It also is the major source of tax revenue for school districts, vocational technical colleges, special purpose districts and tax incremental finance districts. In addition, the state levies a forestry tax equal to two-tenth of one mill (0.02%), the proceeds of which are deposited to the conservation fund.

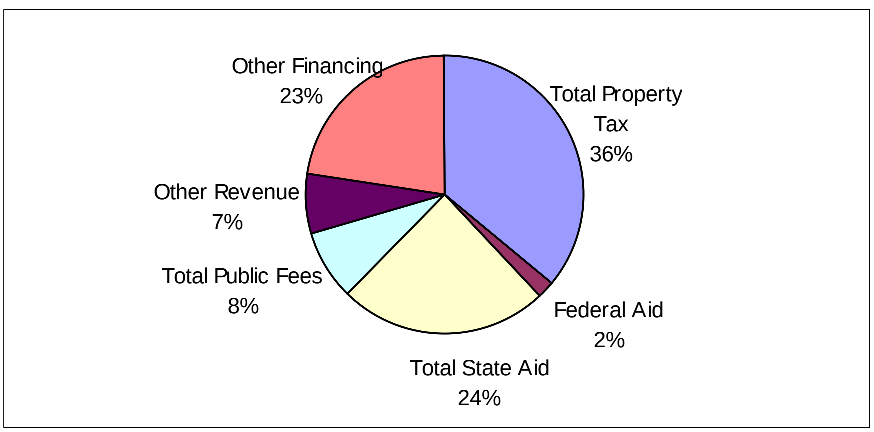
In FY04, property tax collections totaled $7.22 billion and were 37% of total state and local taxes of $19.41 billion. Property taxes were the largest state and local tax source ahead of individual income taxes, totaling $5.78 billion, and sales and use taxes, totaling $4.20 billion. Taxable property in the state totaled $360.7 billion, so the effective tax rate was $20.01 per $1,000 of taxable property (2.001%).

B. PROPERTY TAX AS A REVENUE SOURCE

In Wisconsin, the property tax is a residual revenue source for local governments. Every fall, the governing body of each local taxing jurisdiction – the municipality, county, school district, vocational district, and any special purpose district – determines its budget for the following year. The budgeted amount is reduced by other anticipated revenues, with the remaining amount raised from the property tax.

The following charts show the total 2002 revenue sources for municipalities and counties, and 2002-03 school districts revenues:

CHART 1
TOTAL MUNICIPAL REVENUES[1], 2002



[1] State aid include state shared revenue, state highway aid, all other state aid. Public Charges and Fees include public charges for services, licenses and permits, fines, forfeits and penalties.

CHART 2
TOTAL COUNTY REVENUES, 2002

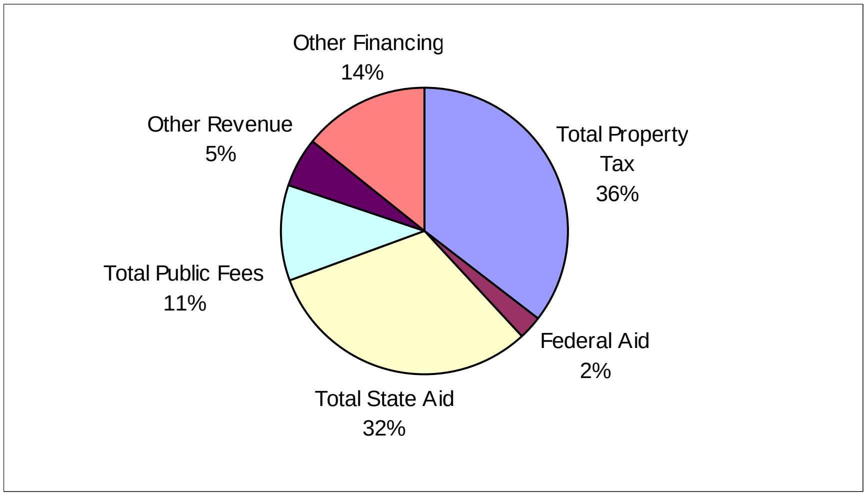
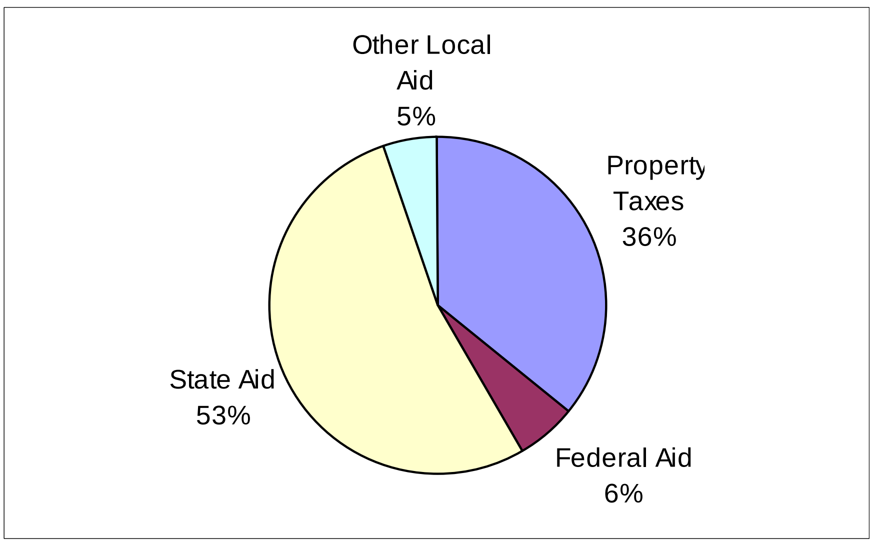


CHART 3
TOTAL SCHOOL DISTRICT REVENUE, 2002-03



Property tax revenues account for 36% of both municipal and county revenues. Federal aids and state aids together account for 26% of total municipal revenues and 34% of total county revenues. Other revenues, such as rental income and sale of property make up 5% to 7% of total municipal and county revenues.

Property tax revenues account for 36% of total 2002-03 school district revenues. Federal and state school aids make up the bulk of other school district revenues.

C. TAXING AUTHORITY AND TAX BASE

The 2003/04 statewide gross property tax levy can be broken down as follows:

TABLE 1
2003 GROSS PROPERTY TAX LEVY
BY TAXING JURISDICTION

Taxing Jurisdiction	Levy ($ million)	% of Total
School District	$3,367.6	43.8%
Municipality (town, village, city)	1,852.5	24.1
County	1,544.8	20.1
Vocational Technical College	565.3	7.4
Other (TIF, Special purpose)	357.1	4.6
Total	$7,687.3	100.0%

As the table shows, the largest portion of the total gross levy is the school district levy (44%), followed by the municipal levy (24%) and county levy (20%).

Gross levies are affected by both state property tax credits and limitations imposed on taxing jurisdictions.

- The state provides two tax credits designed to reduce property taxes:
  - The school levy tax credit is distributed to municipalities based on their share of statewide school levies. It is designed to reduce individual owners' property tax bill and is not to be considered a source of revenue in determining annual budgets. In 2003/04 this credit was $469.3 million statewide, the same amount it has been since 1996.
  - The state also provides a lottery and gaming credit to owner-occupied residential properties. In 2003/04, this credit totaled $118.2 million and averaged $83 per qualifying parcel. Whereas the school levy tax credit reduces the gross levy for all property owners, the lottery and gaming credit reduces the net levy for qualifying residential property.
- In an effort to control property tax increases, counties and school districts are subject to revenue limits, and technical colleges are subject to a rate limit:
  - Under the school district limit, the annual increase in a school district's per pupil revenue from general school aids, computer aid and property taxes was restricted to $236.98 in the 2003/04 school year. The limitation is adjusted annually for inflation. The revenue limit can be exceeded under certain circumstances, including transfers of school district responsibilities, reductions in federal aids, school district reorganizations, or referendum approval.
  - Under the county limit, the operating levy of each county may not exceed the prior year's allowable levy plus an adjustment equal to the percent change in the county's equalized value. This limit effectively restricts the county property tax rate to the

1992/93 county rate. The limit may be exceeded if there is a transfer of responsibilities to the county from other local units of government or by referendum approval. Of the 72 counties, 6 were within 95% of their allowable levy and 7 were within 99% in 2003.

– Technical colleges are subject to a property tax rate limit equal to $1.50 per $1,000 of equalized value. In 2003/04, two districts were at the 1.5 mill limit.

The property tax is an ad valorem tax, i.e., it is levied on the taxable value of property. The property tax is primarily the responsibility of local governments, but state statutes set property classifications, standards of assessment and the taxability of property.

Taxable property is classified into one of the following groups: residential, commercial, manufacturing, undeveloped land, productive forestland, agricultural, agricultural forest, and "other". "Other" is defined to include farm buildings and improvements and the land necessary for their location. 2003 Wisconsin Act 33 changed classification of swamp and waste to "undeveloped land" (effective January 1, 2004), which is assessed at 50% of its full value. In 2004, a new class of property called "agricultural forest" was created. This classification is defined as land capable of producing commercial forest products that is contiguous to a parcel classified in whole as agricultural land if that contiguous agricultural parcel is owned by the same person as the owner of the forest land. Agricultural forest land is also assessed at 50% of its full value.

The standard of assessment for all taxable property, except agricultural land, is full market value as of January 1 of each year. Agricultural land is assessed based on its use value as measured by its income capability in corn production.

Property is presumed to be taxable unless specifically exempted by statute. Real property tax exemptions are identified under sec. 70.11, Wis. Stats., and personal property exemptions are identified under sec. 70.111. Property owned by federal, state and local governments is exempt. Exemptions are also provided for property owned and used by churches, universities, educational and charitable facilities, non-profit hospitals, and non-profit housing. Personal property exempt from tax includes household personal property, manufacturing machinery and equipment, inventories, computers and waste treatment equipment. Intangible property is also exempt.

The Wisconsin Supreme Court decision in *Columbus Park Housing Corporation v. Kenosha* (267 Wis.2d 59) held that property owned by Columbus Park, a non-stock and non-profit corporation that buys and rehabilitates residential property and rents these properties to qualified low-income families, was not exempt from property taxation. Previous to the decision, an organization such as Columbus Park was considered to be a benevolent association whose property was exempt under sec. 70.11 (4), Wis. Stats. 2003 Wisconsin Act 195 provided a property tax exemption for housing leased by non-profit organizations. The act restored and potentially broadened the commonly held interpretation of the statutes that existed prior to the *Columbus Park* decision: housing owned by entities that can be considered "benevolent" are exempt from tax. The act also created a Legislative Council Special Committee on Tax Exemption for Residential Property to study the issue.

D. VALUATION

1. Local Property Assessments

Except for agricultural land and manufacturing, railroad and utility property, assessments are performed by assessors either employed or contracted by the municipality. Resources typically do not allow inspection of each property every year. Complete reevaluations, i.e., interior inspection and new valuation of each property in the municipality, may occur every 5-7 years in small municipalities and every 2-3 years in larger municipalities. However, newly constructed properties and changes to property are added to the assessment roll each year.

Typically, assessors complete their assessments in the spring of each year. Property owners are notified of any assessment changes from the previous year. Property owners may appeal their assessments to local Boards of Review convened after the completion of the assessment roll (usually in May). The Board of Review is made up of municipal officials and has the authority to change valuations and correct for any assessment errors based on the evidence put forward. Appeal of decisions by the Board of Review can be made to the circuit court. Alternatively, property owners may appeal a board of review decision to the Department of Revenue under sec. 70.85, Wis. Stats. Owners of property representing at least 5% of a municipality's total assessed value may also petition the department for a reassessment under sec. 70.75.

2. Role of the Department of Revenue

a. Local assessment standards**:** The department certifies local assessors and provides appraisal guidance through the *Wisconsin Property Assessment Manual*. Assessor certification involves an examination of the assessor's knowledge of appraisal techniques and assessment law. Certification is for a 5-year period requiring continuing education and attendance of annual assessor meetings.

The *Wisconsin Property Assessment Manual* establishes standards, procedures and guidelines for assessors to help ensure uniform assessments. The manual details the administrative structure of the property tax, the statutory requirements and case law involving valuation, assessor duties, and appraisal techniques for real and personal property.

b. Equalization and compliance**:** The standard of assessment is full market value. However, because this realistically cannot be obtained for every property in every year, the law requires only that each municipality be within 10% of market value for every major class of property at least once every four years. As a result, assessors in different taxing districts may value property at different percentages of market value.

This has implications for the distribution of taxes across taxing jurisdictions. In particular, the equitable distribution of the property taxes over several municipalities depends on the uniformity of assessments. To ensure that property is assessed uniformly across all municipalities, the Department of Revenue determines the full value – known as the equalized value – of each municipality. Whereas the local assessor determines the taxable value of individual parcels, the department determines the full value of each major class of property within the municipality.

Equalized (full) values are based on a market sales analysis and review of approximately 220,000 real estate transfer returns and survey data. In addition, the department performs property appraisals on a cyclical basis; a sample of randomly chosen properties is appraised in detail.

The 2003/04 total equalized value can be broken down into the following classes of property:

TABLE 2
2003/04 EQUALIZED VALUE BY CLASS OF PROPERTY

Class of Property	Value ($ billion)	% of Total
Residential	$254.50	70.6%
Commercial	63.2	17.5
Manufacturing	11.2	3.1
Agricultural Land	2.0	0.6
Agricultural "Other"	8.6	2.4
Undeveloped Land	1.9	0.5
Forest Land	9.7	2.7
Personal Property	9.6	2.7
Total	$360.7	100.0%

Equalized values allow the department to measure the municipality's level of assessment, i.e. the ratio of assessed value to full market value, for each class of property. The purpose of equalized values is two-fold: (1) to monitor local compliance with the statutory requirement that each class of property be within 10% of full value at least once every four years, and (2) to allocate property taxes across municipalities.

Failure to comply with the 10% of full value requirement may result in assessor training and a DOR-supervised revaluation of the municipality.

The allocation of property taxes across municipalities is required when a taxing jurisdiction, such as a county or school district, contains multiple municipalities. A county or school district may contain several different municipalities, often 10 or more, each with its own level of assessment. The property tax levy of these taxing entities is apportioned to each municipality on the basis of its equalized value.

To see the necessity of this administrative feature, consider the distribution of a county levy based on the underlying municipalities' assessed – as opposed to equalized – values. Consider a county comprised of two municipalities, each with a full market value equal to $10 million. Suppose the county levy is $500,000. An equitable distribution of county tax would require that each municipality be apportioned 50% of the county levy or $250,000. However, suppose Municipality A assesses at 80% of full value, so its total assessment is $8 million (80% of $10 million), whereas Municipality B assesses at 100% of full value ($10 million).

Table 3 below shows how the county levy would be apportioned based on assessed value. Municipality A would be apportioned only 44% of the total county levy since its assessed value accounts for only 44% of the total assessed value. Municipality B, on the other hand, would be apportioned 56% of the county levy. Thus, Municipality A would pay less than its fair share of the tax if taxes were apportioned based on its total assessed value ($222,222 compared to $250,000), while Municipality B would be over-taxed ($277,778 compared to $250,000).

TABLE 3
APPORTIONMENT OF COUNTY LEVY BASED ON ASSESSED VALUES

	Full Value	%	County Levy Based on Full Value	Assessed Value	%	County Levy Based on Assessed Value
Municipality A	$10,000,000	50%	$250,000	$8,000,000	44%	$222,222
Municipality B	$10,000,000	50%	$250,000	$10,000,000	56%	$277,778
County Total:	$20,000,000		$500,000	$18,000,000		$500,000

***c. Taxpayer assistance, training, and assessment appeals*:** The department provides several publications on the property tax system and appeal rights for property owners (for example, *Guide for Property Owners*). The department provides training videos for Board of Review members to ensure the appropriate functions of Board of Review under open records law and to clarify what evidence may be used in their deliberations. The department is also responsible for hearing appeals of Board of Review decisions under sec. 70.85, Wis. Stats., and petitions for reassessment under sec. 70.75., Wis. Stats. The department supervises any ordered reassessments. In recent years, the department has investigated 8-10 petitions and has supervised 5-7 reassessments annually.

***d. Agricultural assessment*:** The department determines the unit values for agricultural land by soil type and municipality based on a statutory formula. Under the formula, the 5-year average net income under corn production is determined by the 5-year average gross income under corn (5-year Wisconsin average corn price X 5-year county-average yield) less the 5-year average cost of production and a return to management. The net income is divided by a capitalization rate equal to the sum of (1) the 5-year average mortgage rate for 1-year adjustable medium-sized agricultural loans and (2) the full value tax rate for each municipality.

The calculation establishes the unit value for grade 1 soil in each municipality. These values are then prorated to determine unit values for grades 2 and 3 and pasture land.

The current use value formula, based on net income of corn production, produces negative values. Over the past several years, the market price of corn has been steadily decreasing, while the production cost of corn has been steadily increasing. Under the current use value formula, 2004 net income is estimated to be negative because production costs, as currently defined, will exceed the market price of corn. Temporarily the 2003 values were frozen and will be used in the 2004 and 2005 assessments. Revisions to the formula are under review.

***e. Manufacturing assessment*:** The department assesses manufacturing properties for the local property tax. Each parcel of manufacturing real estate is appraised once every 5 years. In interim years, assessments are adjusted for market changes. Personal property is assessed based on a self-reporting form submitted by the manufacturer. These reports are audited once every 5 years. The department determines which property qualifies for the machinery and equipment exemption as well as the waste treatment exemption.

Once the values are established, the department provides each municipality with the manufacturing assessments located in the municipality to be included in the municipality's assessment roll.

The Department of Revenue also assesses property subject to the state's ad valorem utility taxes; in addition some utilities are subject to a state gross revenues tax in lieu of a property tax. The "Taxation of Public Utilities" paper contains information on these taxes.

E. COLLECTION OF PROPERTY TAXES

1. Municipal and County Responsibilities

The municipal clerk acts as the billing and collecting agent for all taxing jurisdictions. Each taxing jurisdiction notifies the municipal clerk of the amount apportioned to the municipality.

The municipal clerk determines the total mill rate based on the apportioned levy of each taxing jurisdiction, the municipality's school tax levy credit and the total assessed value in the municipality. The total net levy is apportioned to individual parcels based on the property's share of the municipality's total assessed value.

The municipal clerk mails the property tax bill to property owners, typically in December. Taxes are due January 31 of the year following the tax year. Thus, the 2004 property taxes, based on the valuation of property as of January 1, 2004, are payable by January 31, 2005. Most municipalities allow for the payment of real estate taxes in two equal instalments, with the first instalment due on January 31 and the second instalment due on July 31 of the year following the tax year. Fifty-seven municipalities allow multiple instalments; typically these municipalities allow the payment of property taxes in 3 instalments. Except for the City of Milwaukee, all real estate property taxes must be paid by July 31, regardless of the number of instalments. The City of Milwaukee allows 10 instalments through October. Personal property taxes must be paid in full by January 31.

In municipalities that allow payment in two instalments, the municipality collects all property tax paid through January of the year following the tax year. In February, the tax roll is transferred to the county treasurer, thereby making the county responsible for real estate tax collections for the remainder of the year. Thus, property owners pay their first instalment of property taxes to the municipal treasurer and their second instalment to the county treasurer. The municipality continues to collect any delinquent personal property taxes throughout the year.

Except for the City of Milwaukee, municipalities that allow multiple payments retain the tax roll and collection responsibility through July when the last instalment must be paid. In August, these municipalities transfer the roll to the county treasurer.

2. Role of the Department of Revenue.

The department prescribes the property tax form and several reports required of local governments related to the property tax. Municipalities provide the department with data that ensure administrative consistency and the correct apportionment of taxes. The data, published in the "County and Municipal Revenues and Expenditure" report and the "Town, Village and City Taxes" report, allow comparisons between local units of government of levies and values.

The department determines the distribution of the school levy tax credit. The credit is based on each municipality's share of statewide school district levies during the three preceding years.

The department oversees administration of the lottery and gaming credit. 2003 Wisconsin Act 33 repealed the 5-year limit on the validity of lottery and gaming credits. Claims are valid as long as the property is eligible for the credit. The Act requires counties and cities that administer the credit to implement procedures to verify credit eligibility periodically. These local governments must submit a report with the Department of Revenue in 2004 and every 5 years thereafter describing and evaluating their verification procedures. The Act also repeals administrative reimbursements to county treasurers.

F. SETTLEMENT OF TAXES

The settlement process describes the procedures used by the municipal and county treasurers, who collect all property taxes, to distribute the collected taxes to the other taxing jurisdictions.

In municipalities that allow for two instalments, there are four scheduled times when the responsible treasurer settles with the other taxing jurisdictions. In January, the municipal treasurer settles for all taxes collected in December. In February, the municipal treasurer settles for taxes collected in January and then transfers the tax roll and tax collection duties to the county. In March, the county treasurer settles with the state for the state forestry tax. In each of these distributions, each taxing jurisdiction receives its proportionate share of the general property tax. Thus, if the school district levy is 50% of the total levy, it receives 50% of the taxes collected in each settlement.

Municipalities that allow for multiple instalments settle with other taxing jurisdictions after each instalment. These municipalities transfer the roll to the county treasurer in the August settlement.

In August, the county treasurer settles in full for all remaining real estate taxes owed to the other taxing jurisdictions. In this way, the county "buys" the tax roll and is responsible for the collection of any delinquent real estate taxes. The county retains the collection of any delinquent taxes along with any interest and penalties.

The department prescribes forms regarding the settlement of taxes. Data from these reports are used to oversee the correct distribution of property tax payments.

G. LAND SOLD FOR DELINQUENT TAXES

On September 1 of each year, the county treasurer issues to the county a tax certificate which includes all parcels of real property for which property taxes remain unpaid as of August 31. The issuance of the tax certificate begins the redemption period. Any person may redeem the land described in the tax certificate by paying all the unpaid taxes plus interest and penalties.

In general, the redemption period is 2 years with several exceptions. When costs incurred by any city or village for razing or restoring the site are included in the amount due for taxes, the redemption period is one year. Also, the redemption period for the City of Milwaukee and for counties with populations of 500,000 or more is one year for *in rem* proceedings, i.e., proceedings taken directly against the property, without reference to title of individual claimants.

With the exceptions noted above, two years after the issuance of the tax certificate, the county is entitled to force collection of the delinquent taxes. A county may force collection of the delinquent taxes in one of three ways: (a) take a tax deed under sec. 75.12, Wis. Stats., or (b) commence an action to foreclose the tax certificate under sec. 75.19, Wis. Stats., similar to a mortgage foreclosure, or (c) commence an action *in rem* to foreclose the tax lien under sec. 75.521, Wis. Stats., whereby the foreclosure of all tax liens are consolidated.

Typically the county will not maintain ownership of tax-deeded property. Once a marketable title is obtained, the county will proceed to sell the property as specified by county ordinance. If the property sold had been used by the former owner as a homestead at any time during the 5 years preceding the county's acquisition, the former owner is entitled to the some of the remainder of the net proceeds of the sale. Any delinquent taxes, interest and penalties owed by the owner for other property are deducted from the proceeds.